

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05

CEA-01 /081 W

-----058622 220310Z/13

R 211531Z SEP 77

FM AMEMBASSY VIENNA

TO SECSTATE WASHDC 3416

CONFIDENTIAL VIENNA 8549

EO 11652: GDS

TAGS: PDIP, AU

SUBJECT: CALL ON CENTRAL BANK PRESIDENT HANS KLOSS

REF: 1. VIENNA 8196, 2. VIENNA 8514

1. IN VERY CORDIAL MEETING WITH AUSTRIAN NATIONAL BANK PRESIDENT HANS KLOSS, I WAS TREATED TO AN EXTRMELY FRANK ACCOUNT OF AUSTRIA'S CURRENT ECONOMIC CONDITION. COMING, AS ID DID, THE DAY AFTER THE GOA ECONOMIC CAUCUS (WHERE THE GOVERNING PARTY'S LEADERS WRESTLED WITH POSSIBLE SOLUTIONS TO IMMEDIATE ECONOMIC PROBLEMS), THIS WAS ESPECIALLY TIMELY. IN KLOSS' VIEW, AUSTRIA CAN NO LONGER AFFORD ITS GROWING TRADE AND BUDGET DEFICITS. INITIAL HOPES THAT THESE MIGHT BE PURELY CYCLICAL HAVE NOT BEEN DISMISSED BY ALMOST EVERYBODY, AND THERE IS WIDESPREAD AGREEMENT THAT MORE STRINGENT MEASURES ARE NEEDED. TO WHAT EXTENT NECESSARY MEASURES ARE TOLERABLE FROM THE POLITICAL STANDPOINT, HOWEVER, IS A STILL TOUGHER QUESTION. FOR THE TIME BEING THAT QUESTION HAS BEEN NEATLY BEGGED BY THE ESTABLISHMENT OF A SPECIAL COMMISSION WHICH IS CHARGED WITH DRAWING UP THE POLICY PACKAGE TO BE ANNOUNCED IN TWO WEEKS-AFTER THE PROVINCIAL ELECTION IN BURGENLAND.

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2. ACCORDING TO KLOSS, WHAT IS NEEDED IS A STRICT INCOMES POLICY THAT WOULD HOLD REAL WAGES AT CONSTANT LEVELS WHILE AUSTRIA'S INDUSTRY, NOW SHOWING SYMPTONS OF AGE AFTER THE POST WORLD WAR II RECONSTRUCTION, CAN BEGIN TO BE RESTRUCTURED.

KLOSS AVOIDED SUGGESTING SPECIFIC POLICY MEASURES, SAYING SIMPLY THAT THESE MUS T BE DECIDED BY THE POLITICNAS. HE

DID SAY, HOWEVER, THAT GIVEN CURRENT WAGE LEVELS THE SCHILLING WAS OVERVALUED, IMPLYING THAT DEVALUATION WOULD BE USEFUL PROVIDING THIS WAS ACCOMPLISHED BY WAGE CONTROLS.

3. COMMENT. ALTHOUGH KLOSS' PRESCRIPTION WILL BE TEMPERED BY POLITICAL REALITIES, I AM IMPRESSED WITH THE SERIOUSNESS OF THE CONSERVATIVE ECONOMIC LINE BEING TAKEN BY THE CHANCELLOR AND HIS PRINCIPAL ADVISERS AT THIS STAGE IN THE GAME. IN PART THIS MIGHT BE TACTICAL, BUT THERE SEEMS TO BE SOMETHING MORE-PERHAPS RELECTION ON THE LESSONS LEARNED FROM EXPERIENCE IN THE UK, ITALY AND ESPECIALLY SWEEN. IN ANY EVENT AN AWARENESS OF AUSTRIA'S ECONOMIC SHORTCOMINGS HAS SPREAD AND NEW COUNTERMEASURES CAN BE EXPECTED. SOME LIMITATIONS AFFECTING IMPORTS SEEMS MOST LIKELY TO BE AMONG THESE. WOLF

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## Message Attributes

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**Disposition Date:** 22 May 2009  
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**Subject:** CALL ON CENTRAL BANK PRESIDENT HANS KLOSS  
**TAGS:** PDIP, ECON, AU, (KLOSS, HANS)  
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